

1 TO HAVE ADDITIONAL N.I.D.'S AND BOXES ON MY HOUSE?"

2 A (MR. SCHEYE) I MEAN, JUST IN A RESPONSE, I THINK THE  
3 PRICE OF POTENTIALLY HAVING ANOTHER SMALL BOX ON THE SIDE  
4 OF YOUR HOUSE VERSUS HAVING YOUR HOUSE BURN DOWN OR  
5 SOMEONE ELECTROCUTED, TO ME THERE'S NO REAL ISSUE HERE;  
6 AND I THINK MOST PEOPLE WOULD--IF THAT'S WHAT IT CAME TO,  
7 THEY HAD TO PUT ANOTHER SMALL DEVICE OUT THERE THAT'S  
8 USUALLY BEHIND BUSHES ANYHOW, I THINK THEY WOULD TAKE THAT  
9 BEFORE THEY WOULD TAKE THE KIND OF RISK THAT MR. MILNER  
10 REFERRED TO.

11 Q (MS. TAYLOR) NOW WE'LL MOVE TO THE ADVANCED  
12 INTELLIGENT NETWORK.

13 CHAIRMAN BUTLER: WE'LL HAVE A  
14 SHORT BREAK.

15 (HEARING RECESSED)

16 CHAIRMAN BUTLER: PLEASE BE SEATED.  
17 THE HEARING WILL NOW COME TO ORDER.

18 MS. TAYLOR.

19 Q (MS. TAYLOR) TO KEEP THE A.I.N. DISCUSSION IN  
20 SUMMARY, I'M GOING TO GIVE YOU A COUPLE OF QUESTIONS AND,  
21 IF YOU WILL, SUMMARIZE YOUR ANSWER. I'LL BE HAPPY TO  
22 REPEAT IT. WHAT THE COMMISSION IS INTERESTED IN IS  
23 KNOWING WHAT THE CURRENT STATUS OF A.I.N. IS IN THE  
24 EXISTING BELLSOUTH NETWORK TODAY. DO YOU CONSIDER IT TO

1 BE AN IMPORTANT RESOURCE THAT WILL PROVIDE COMPETITIVE  
2 OPPORTUNITIES TO CUSTOMERS IN THE FUTURE IN THE LOCAL  
3 MARKET? WHAT ARE THE COSTS? IS IT COST PROHIBITIVE? WHO  
4 WILL BEAR THOSE COSTS? AND AGAIN, I'LL BE HAPPY TO REPEAT  
5 THESE. I THINK WE'LL START WITH THE AT&T PANEL FOR A  
6 RESPONSE.

7 A (MR. HAMMAN) YES, I CAN ADDRESS THE FIRST ISSUES  
8 THERE IN TERMS OF THEIR CURRENT STATE. I'M NOT SURE I CAN  
9 POINT DIRECTLY TO BELLSOUTH'S CAPABILITY, BUT--AND HOW  
10 IMPORTANT IT IS TO OUR CUSTOMERS. I THINK MR. ELLISON  
11 MIGHT TALK TO THE COST, WHO BEARS THE COST. A.I.N. IS  
12 ADVANCED INTELLIGENT NETWORK AND, AS YOU SAW ON THE CD-ROM  
13 PRESENTATION I MADE, THAT WAS ONE OF MANY CAPABILITIES  
14 THAT THE A.I.N. NETWORK PROVIDES FOR CUSTOMERS, BOTH  
15 BELLSOUTH AND AT&T'S CUSTOMERS. A.I.N. WAS DESIGNED TO  
16 PROVIDE THE FLEXIBILITY TO TELEPHONE COMPANIES TO PROVIDE  
17 THESE ADVANCED FEATURES AND CAPABILITIES TO CUSTOMERS  
18 WITHOUT HAVING TO RELY ON THE EQUIPMENT VENDORS OR  
19 EQUIPMENT MANUFACTURERS. IT MAY TAKE ANYWHERE FROM SIX  
20 MONTHS TO TWELVE MONTHS TO BRING IN THESE FEATURES TO THE  
21 MARKET. SO THE IMPORTANCE OF THE ADVANCED INTELLIGENT  
22 NETWORK OR A.I.N. CAPABILITIES IS TO BRING TO THE MARKET,  
23 TO THE CUSTOMERS, THESE KINDS OF ADVANCED FEATURES THAT  
24 THE MARKET IS ASKING US TO BRING; AND BELLSOUTH HAS GONE

1 ABOUT DEPLOYING THE A.I.N. INFRASTRUCTURE AND HAS VERY  
2 MUCH PUBLICIZED THEY HAVE AN ADVANCED DEPLOYMENT OF THAT  
3 AND PROUD OF THEIR DEPLOYMENT, AND IT'S UTILIZED IN MANY  
4 CASES FOR FEATURES OTHER THAN JUST THE ONE WE SAW IN TERMS  
5 OF VOICE RECOGNITION. SO FOR AT&T TO HAVE ACCESS TO THOSE  
6 A.I.N. TRIGGERS IS IMPORTANT TO OUR CUSTOMERS AS IT WOULD  
7 BE TO THEIR CUSTOMERS, THAT WE BE ABLE TO PROVIDE THE SAME  
8 SERVICES AND TAKE ADVANTAGE OF ADDING OUR DATABASES TO  
9 THEIR INTELLIGENT NETWORK AND HAVE ACCESS TO THEIR  
10 TRIGGERS SO WE CAN CREATE OUR APPLICATIONS JUST AS THEY  
11 CAN CREATE THEIR APPLICATIONS TODAY IN THEIR OWN ADVANCED  
12 INTELLIGENT NETWORK.

13 A (MR. ELLISON) WITH RESPECT TO THE COSTS OF PROVIDING  
14 A.I.N. SERVICES, I GUESS--WE HAVE ASKED BELLSOUTH TO  
15 PROVIDE COST INFORMATION ON ANY ADDITIONAL COSTS THAT THEY  
16 THINK WOULD BE INVOLVED. WE HAVE NOT RECEIVED ANY  
17 INFORMATION FROM BELLSOUTH. ESSENTIALLY THE BASIC  
18 CAPABILITIES FOR A.I.N. ARE INCLUDED IN OUR PRICING  
19 PROPOSAL. THE CAPABILITIES WITHIN THE END OFFICE ARE  
20 INCLUDED IN THE END OFFICE SWITCHING CHARGES WE PROPOSE.  
21 IN ADDITION TO THAT, THE CHARGES FOR ACCESSING THE A.I.N.  
22 DATABASE ARE INCLUDED IN THE S.C.P. PRICES WE PROPOSE; AND  
23 THE TRANSPORT AND THE COMMUNICATIONS BACK AND FORTH WOULD  
24 BE COVERED IN THE TRANSPORT--THE SIGNALING NETWORK, LINKS

1 AND S.T.P. CHARGES THAT WE PROPOSE. SO IT IS A USAGE  
2 SENSITIVE ACTIVITY THAT TAKES PLACE THAT WOULD BE COVERED  
3 THROUGH THE NETWORK ELEMENT CHARGES.

4 Q (MS. TAYLOR) AND NOW THE BELLSOUTH PANEL. I WOULD BE  
5 HAPPY TO REPEAT ANY OF THE QUESTIONS.

6 A (MR. MILNER) OKAY, THANK YOU. THERE'S A COUPLE OF  
7 POINTS THAT I'D MAKE. FIRST, BELLSOUTH HAS BEEN A LEADER  
8 AND IS A LEADER IN DEPLOYING ADVANCED INTELLIGENT  
9 NETWORKS. WE'RE PROUD OF THAT FACT. THE SECOND PART OF  
10 YOUR QUESTION RELATED TO THE COMPETITIVE NATURE OF THE  
11 ADVANCED INTELLIGENT NETWORK AND BELLSOUTH RECOGNIZES THAT  
12 A.I.N. IS AN IMPORTANT SERVICE CREATION TOOL; AND IN  
13 RECOGNITION OF THAT HAS OFFERED SERVICE CREATION TOOLS  
14 THAT WE PROVIDE TO ANYBODY THAT WANTS TO DEVELOP A SERVICE  
15 AND HAVE THAT SERVICE RUN ON OUR A.I.N. WE HAVE TWO SETS  
16 OF OFFERINGS. ONE IS CALLED DESIGN EDGE AND THE OTHER IS  
17 CALLED PORT EDGE. SO WE RECOGNIZE THAT A.I.N. IS A  
18 SIGNIFICANT STEP FORWARD IN UNCOUPLING THE CREATION OF  
19 SERVICES FROM OTHER PARTS OF OUR NETWORK SUCH AS THE  
20 SWITCHES. MR. HAMMAN TALKED ABOUT ACCESS TO A.I.N. AND  
21 BELLSOUTH HAS AGREED TO PROVIDE ACCESS TO ALL THE PIECE-  
22 PARTS. HOWEVER, WE DRAW A DISTINCTION IN ONE REGARD,  
23 BETWEEN ACCESS TO SOME THINGS CALLED A.I.N. TRIGGERS AND  
24 QUALIFYING THAT AND SAYING WE'RE OPPOSED TO WHAT I'LL

1 CHARACTERIZE AS DIRECT ACCESS TO THOSE TRIGGERS. LET ME  
2 EXPLAIN THAT A TRIGGER, AS THE NAME SORT OF IMPLIES, IS A  
3 POINT IN THE PROCESSING OF A CALL AT WHICH THE SWITCH SAYS  
4 I NEED MORE INFORMATION TO KNOW WHAT TO DO WITH THIS CALL  
5 NEXT. FOR EXAMPLE, I HAVE AN 800 NUMBER, BUT I DON'T KNOW  
6 TO WHAT INTEREXCHANGE CARRIER TO SEND THAT, I DON'T KNOW  
7 WHAT ELSE TO DO WITH THAT CALL, LET ME TRIGGER A DATABASE  
8 LOOKUP; AND SO IT SAYS HERE'S THE 800 NUMBER, AND THE  
9 INFORMATION THAT COMES BACK SAYS HERE'S WHAT YOU SHOULD DO  
10 WITH THAT CALL. YOU SHOULD ROUTE IT IN THIS FASHION. SO  
11 OBVIOUSLY THAT KIND OF INFORMATION IS ACCEPTED BY THE  
12 SWITCH AND IT PROCESSES BASED ON WHAT IT GETS BACK FROM  
13 THAT DATABASE LOOKUP. IF THAT INFORMATION IS WRONG, IF  
14 IT'S INAPPROPRIATE, THEN I, AS A CALLER, DON'T REACH THE  
15 DESTINATION THAT I WANTED TO. SO TO COUNTERACT ANY  
16 NEGATIVE EFFECTS OF INAPPROPRIATE OR INACCURATE UPDATES OF  
17 THOSE INSTRUCTIONS TO THE SWITCHES, WE'VE ASKED SIMPLY  
18 THAT SOME SPECIAL COMPUTER PROGRAMS THAT WE CALL MEDIATION  
19 DEVICES BE PUT IN PLACE. TO DRAW AN ANALOGY BETWEEN THE  
20 SWITCHING NETWORK AND YOUR PERSONAL COMPUTER, YOU CAN BUY  
21 A SOFTWARE TO RUN ON YOUR PERSONAL COMPUTER THAT DETECTS  
22 THE PRESENCE OF VIRUSES AND THOSE PROGRAMS LOOK AT THE  
23 INFORMATION AND SAYS, THIS INFORMATION IS APPROPRIATE, THE  
24 EFFECT IS APPROPRIATE BASED ON WHAT YOU'RE TRYING TO DO OR

1 IT'S NOT, BECAUSE THE UNDERLYING SYSTEMS WILL PRETTY MUCH  
2 ACT ON THE INFORMATION THAT'S RETRIEVED. SO BELLSOUTH  
3 ASKS SIMPLY THAT THE SAME KIND OF COMPUTER PROGRAMS BE PUT  
4 BETWEEN AT&T'S DATABASES AND OUR SWITCHES SUCH THAT THE  
5 INSTRUCTIONS THAT OUR SWITCHES WILL GET IN TERMS OF HOW TO  
6 PROCESS A CALL, WHO TO ROUTE IT TO, WHETHER TO ROUTE IT AT  
7 ALL OR NOT, IS VERIFIED NOT ONLY IN TERMS OF THE FORMAT OF  
8 THAT TO MAKE SURE THAT THE 0'S AND 1'S ARE IN THE RIGHT  
9 PLACE, BUT MORE IMPORTANTLY THAT THE EFFECT OF THAT  
10 INSTRUCTION IS APPROPRIATE AND SUCH THAT EITHER  
11 INADVERTENT OR INTENTIONAL DISRUPTION OF THE NETWORK DOES  
12 NOT TAKE PLACE. THE SWITCHES WILL PRETTY MUCH ACT ON THE  
13 INSTRUCTIONS THEY RECEIVE FROM THESE DATABASES EVEN IF  
14 THOSE INSTRUCTIONS SAY TURN OFF THE TRUNK ROUTES FROM MY  
15 COMPETITORS AND DON'T SEND ANY MORE CALLS THAT WAY. SO WE  
16 ASK SIMPLY THAT THOSE DEVICES BE PUT IN PLACE TO ENSURE  
17 CONTINUED OPERATION OF THE NETWORK. ON THE OTHER HAND, IF  
18 AT SOME FUTURE POINT AT&T SAYS I WOULD LIKE TO CONNECT  
19 BELLSOUTH'S DATABASES TO AT&T'S SWITCHES, THEN WE SAY  
20 FINE; AND IF YOU THINK YOU NEED MEDIATION OR PROTECTION  
21 FROM OUR DATABASES GIVING INAPPROPRIATE TO YOUR SWITCHES,  
22 WE THINK THAT'S ENTIRELY APPROPRIATE.

23 A (MR. SCHEYE) LET ME ADDRESS THE LAST PART, IF I CAN,  
24 OF YOUR QUESTION ABOUT THE COSTING. ONE, WE DO NOT

1 BELIEVE THE COST WILL BE PROHIBITIVE. WE DO BELIEVE IT  
2 WILL BE USED IN A COMPETITIVE ENVIRONMENT. AND LIKE EVERY  
3 OTHER ELEMENT BASICALLY--AND MR. ELLISON CERTAINLY TALKED  
4 ABOUT SOME, TO THE EXTENT THAT AT&T REQUIRES TRANSPORT,  
5 THOSE PRICES SHOULD BE CHARGED UNIQUELY. AGAIN, ANY  
6 UNIQUE APPLICATION OF A.I.N. SHOULD BE CHARGED BASED ON  
7 THE COSTS OF THOSE PARTICULAR CAPABILITIES AND ELEMENTS  
8 THAT AT&T WISHES TO ACTIVATE.

9 Q (MS. TAYLOR) MEDIATION WAS CERTAINLY THE FOLLOW-UP  
10 ISSUE THAT YOU'VE TOUCHED ON, MR. MILNER. BEFORE I MOVE  
11 TO THE AT&T PANEL TO REQUEST THEIR OPINION ON MEDIATION  
12 DEVICES, LET ME ASK YOU IF THE USE OF SUCH A DEVICE WOULD  
13 INCREASE POST-DIAL DELAY FOR CUSTOMERS.

14 A (MR. MILNER) YES, IT WILL. ANY PROGRAM THAT YOU PUT  
15 IN WITHIN THE CONFINES OF CALL PROCESSING WILL INTRODUCE  
16 SOME DELAY. WE HAVE TWO THOUGHTS, THOUGH. ONE IS THAT  
17 CALL PROCESSING IS NOT A SERIAL SORT OF THING, THAT THIS  
18 HAPPENS AND THEN SOMETHING ELSE HAPPENS. A LOT OF THESE  
19 THINGS ARE HAPPENING AT THE SAME POINT. SO, YES, WHILE WE  
20 AGREE THAT SOME POST-DIALING DELAY WILL BE INTRODUCED, THE  
21 ESTIMATES OF THAT DELAY DIFFER SHARPLY BETWEEN WHAT  
22 BELLSOUTH BELIEVES AND WHAT AT&T BELIEVES. I THINK  
23 THEY'VE SAID THAT IT MAY BE AS MUCH AS FOUR-TENTHS OF A  
24 SECOND IN SOME CASES. WE THINK IT'S QUITE A BIT LOWER

1           THAN THAT, PROBABLY MORE ON THE ORDER OF ONE-TENTH OF A  
2           SECOND, WHICH WE SAY IN HUMAN TERMS IS--WHILE IT IS  
3           MEASURABLE, IT'S PROBABLY NOT PERCEPTIBLE IN HUMAN TERMS,  
4           AND WE THINK THAT THAT POST-DIALING DELAY IS WORTH THE  
5           EXTRA PROTECTION THAT GETS BUILT INTO OUR NETWORK AGAINST  
6           THE POSSIBILITY OF NETWORK DISRUPTION.

7           A     (MR. HAMMAN)           MAY I RESPOND TO THAT QUESTION?

8           Q     (MS. TAYLOR)          YES, PLEASE.

9           A     (MR. HAMMAN)          YES, AND THERE IS IN FACT POST-DIAL  
10          DELAY. THERE ARE TWO OTHER EFFECTS THAT HAPPEN WHEN YOU  
11          PUT EITHER A SOFTWARE PACKAGE OR MEDIATION DEVICE IN THE  
12          PATH OF THAT SIGNALING NETWORK. IN ADDITION TO THE POST-  
13          DIAL DELAY, WHICH MAY OR MAY NOT BE PERCEPTIBLE TO THAT  
14          PARTICULAR CONSUMER DEPENDING ON THE TYPE OF CALL IT IS,  
15          IT ALSO INTRODUCES ANOTHER SPOT ON THE NETWORK THAT COULD  
16          HAVE A POTENTIAL PROBLEM IN THE NETWORK, ANOTHER POINT OF  
17          BREAKAGE THAT COULD POTENTIALLY HAPPEN IN THE NETWORK THAT  
18          WE DON'T FEEL IS NECESSARY BASED ON WHAT WE BELIEVE IS  
19          CURRENTLY AVAILABLE ON THE SIGNALING NETWORK TODAY. THE  
20          THIRD THING, AND THEY READILY ADMIT THAT, THAT THIS DEVICE  
21          OR THIS SOFTWARE HAS NOT BEEN DEVELOPED YET. SO THE TIME  
22          TO ENTER THE MARKET IS GOING TO BE TOTALLY DEPENDENT UPON  
23          BELLSOUTH DEVELOPING WHAT THEY BELIEVE IS NECESSARY AND WE  
24          BELIEVE IS NOT NECESSARY FOR THIS MEDIATION. IN OUR TESTS



1            THAT I REFERENCE IN MY TESTIMONY BETWEEN BELLSOUTH AND  
2            AT&T, WE ACTUALLY DID THIS WITHOUT THE MEDIATION OR  
3            WITHOUT THE SOFTWARE THAT MR. MILNER TALKS ABOUT AND THE  
4            TESTS WERE SUCCESSFUL. SO WE BELIEVE THAT THE EXISTING  
5            NETWORK DOES PROVIDE FOR THIS; AND WHETHER THE POST-DIAL  
6            DELAY IS PERCEPTIBLE OR NOT, IT IS DIFFERENT FOR US OR OUR  
7            CUSTOMERS THAN IT WOULD BE FOR BELLSOUTH AND THEIR  
8            CUSTOMERS, AND THAT DOESN'T SEEM TO BE WHAT THE ACT IS  
9            CALLING FOR IN TERMS OF NONDISCRIMINATORY OR NONPARITY  
10           ISSUES WITH THE OTHER COMPANY. IF BELLSOUTH IN FACT FEELS  
11           THAT THIS DEVICE IS NECESSARY, THEN I WOULD THINK THEY'D  
12           BE WILLING TO PUT THEIR OWN MESSAGES THROUGH THERE JUST AS  
13           THEY'RE ASKING US TO DO FOR OUR MESSAGES.

14        Q        (MS. TAYLOR)        I HAVE ONE MORE POINTED QUESTION  
15           REGARDING A.I.N. AND I'LL DIRECT IT TO THE AT&T PANEL  
16           FIRST. COULD AN A.I.N. SERVICE BE SET UP IN A SINGLE  
17           DATABASE AND PROVIDED TO MARKETS THROUGHOUT THE ENTIRE  
18           COUNTRY?

19        A        (MR. HAMMAN)        YES, IT COULD; AND YES, IT CAN; AND YES,  
20           IT IS. WHAT BELLSOUTH HAS DONE FOR MUCH OF THEIR A.I.N.  
21           NETWORK IS THEY HAD SET UP LOCAL DATABASES FOR INFORMATION  
22           THAT'S NEEDED BY LOCAL CUSTOMERS IN THAT REGION OR IN THAT  
23           LOCAL TERRITORY. THEN WHEN THERE'S NECESSITY TO GO GET  
24           THE DATABASE THAT HAS REGIONAL DATA, THEY'D USE A REGIONAL

1 DATABASE TO GET THERE MUCH THE SAME WAY THAT AT&T WOULD  
2 LIKE TO HAVE OUR DATABASE, WHICHEVER ONE IT WOULD BE THAT  
3 WE WOULD LIKE TO USE, HAVE IT ACCESSIBLE TO ANY MARKET  
4 THAT WE WOULD LIKE TO ENTER. THAT ONE DATABASE COULD  
5 PROVIDE FOR ANY MARKET THE SAME FEATURES, FUNCTIONS OR  
6 CAPABILITIES. IT'S REALLY AN ENGINEERING DECISION ON  
7 WHERE YOU HAVE THE DATA AND WHAT YOU INTEND TO DO WITH  
8 THAT. IF IT IS IN FACT JUST LOCAL DATA--MUCH AS BELLSOUTH  
9 DOES, THEY HAVE A LOCAL S.C.P. FOR LOCAL DATA, WE MAY HAVE  
10 ONE DATABASE FOR THAT. IF WE HAVE NATIONAL DATA, WE MAY  
11 HAVE ONE DATABASE FOR THAT THAT WOULD BE ACCESSIBLE TO ALL  
12 MARKETS.

13 Q (MS. TAYLOR) AND IF YOU WOULD LIKE TO RESPOND--

14 A (MR. MILNER) YEAH, I WOULD JUST COMMENT VERY QUICKLY  
15 ON JUST A COUPLE OF POINTS. I AGREE WITH MR. HAMMAN THAT  
16 THERE'S A TRADE-OFF BETWEEN HOW MANY DATABASES AND HOW  
17 CLOSE THEY ARE LOCATED TO THE CUSTOMERS THAT WANT TO USE  
18 THEM, BUT OBVIOUSLY COMPANIES CAN AND WILL USE A SINGLE  
19 DATABASE IN SOME CASES TO SERVE AN ENTIRE NATION. WE  
20 FULLY ANTICIPATE THAT AT&T WILL DEVELOP SOME SERVICES ON  
21 ITS OWN DATABASES THAT WE WOULD FIND ATTRACTIVE AND WANT  
22 TO LICENSE OR OTHERWISE USE AND WE'LL MAKE ARRANGEMENTS TO  
23 USE THAT SOFTWARE FOR OUR OWN CUSTOMERS. LIKEWISE, WE  
24 THINK AT&T MAY DECIDE TO CONNECT OUR DATABASES TO ITS

1 SWITCHES; AND, AGAIN, IF THEY WOULD LIKE TO DO THAT AND  
2 THEY THINK THEY NEED ANY PROTECTION FROM OUR SOFTWARE,  
3 THEN THEY'RE CERTAINLY ENTITLED TO DATABASES--OR MEDIATION  
4 DEVICES OF THEIR OWN. SECONDLY, I'D GO BACK TO A POINT  
5 ABOUT NETWORK RELIABILITY. THE TESTING THAT MR. HAMMAN  
6 REFERRED TO WAS CONDUCTED ENTIRELY INSIDE A LAB ENVIRON-  
7 MENT. IT WAS NOT A LIVE NETWORK. AND IF YOU'LL READ THE  
8 FIRST COUPLE OF PAGES OF THE REPORT, YOU'LL NOTE THAT  
9 ISSUES SUCH AS NETWORK RELIABILITY WERE SPECIFICALLY  
10 EXCLUDED FROM BEING FACTORS OF THE TEST. SO, YES, WHILE A  
11 TEST WAS PERFORMED, IT WAS IN A LAB ENVIRONMENT WITH  
12 ABSOLUTELY NO CONSIDERATION OF HARMFUL EFFECT AND ITS  
13 POTENTIAL ON THE NETWORK.

14 Q (MS. TAYLOR) LET'S MOVE NOW TO ISSUE 15 WHICH I KNOW  
15 WILL ELICIT EVEN MORE DISCUSSION. I'LL STATE IT GENERALLY  
16 FOR THE COMMISSION. SHOULD THIS COMMISSION PROHIBIT  
17 BELLSOUTH FROM PLACING ANY LIMITATIONS ON AT&T'S ABILITY  
18 TO COMBINE UNBUNDLED NETWORK ELEMENTS WITH ONE ANOTHER, OR  
19 WITH RESOLD SERVICES, OR WITH AT&T'S FACILITIES IN ORDER  
20 TO PROVIDE TELECOMMUNICATIONS SERVICES TO CONSUMERS IN ANY  
21 MANNER IN WHICH AT&T CHOOSES? LET'S START WITH A GENERAL  
22 QUESTION AND I WILL DIRECT IT TO THE AT&T PANEL FIRST. IS  
23 AT&T ALLOWED UNDER THE ACT IN THE F.C.C.'S RULING TO  
24 COMBINE UNBUNDLED ELEMENTS?

1 A (MS. WINEGARD) LET ME ADDRESS THE LAW FIRST OF ALL.  
2 ABSOLUTELY, IT IS UNEQUIVOCAL IN SECTION 251(C)(3) THAT  
3 AT&T OR ANY OTHER NEW ENTRANT CAN COMBINE NETWORK ELEMENTS  
4 IN ANY MANNER THAT WE DEEM APPROPRIATE IN A WAY THAT OUR  
5 CUSTOMERS DEMAND, AND I BELIEVE THAT THAT ALSO WAS  
6 CATEGORICALLY DETERMINED BY THE F.C.C. IN THEIR RULES AND  
7 IT HAS BEEN THE PREDOMINANT RULING WITH RESPECT TO THE  
8 ORDERS THAT HAVE BEEN ISSUED, NOT JUST IN THE BELLSOUTH  
9 REGION BUT AROUND THE COUNTRY.

10 I DO WANT TO CORRECT A STATEMENT THAT  
11 WAS MADE EARLIER TODAY WITH RESPECT TO NORTH CAROLINA.  
12 NORTH CAROLINA STATED IN ITS RECOMMENDED ORDER--THIS IS  
13 NOT YET A FINAL ORDER: "A PLAIN READING OF THE ACT,  
14 REINFORCED BY THE F.C.C. INTERCONNECTION ORDER, LEADS TO  
15 THE INESCAPABLE CONCLUSION THAT TO PREVENT A COMPETING  
16 CARRIER FROM RECOMBINING UNBUNDLED NETWORK ELEMENTS AS IT  
17 CHOOSES WOULD BE BOTH LEGALLY IMPERMISSIBLE AND  
18 PRACTICALLY IMPOSSIBLE."

19 WE ALSO HAVE ISSUES WITH RESPECT TO THE  
20 PRICING AND MR. GILLAN WILL SPEAK TO THAT.

21 A (MR. GILLAN) I GUESS I SHOULD BEGIN BY STATING THAT  
22 SOME INCREDIBLY DISTURBING THINGS WERE SAID ABOUT THIS  
23 YESTERDAY AND AGAIN TODAY; AND IF IT WOULD PLEASE THE  
24 COMMISSION, I GUESS THE CORE OF THE DISAGREEMENT AS TO WHY

1 BELLSOUTH BELIEVES THAT AT&T OR OTHER ENTRANTS SHOULD NOT  
2 BE ABLE TO DO THAT IS SUMMARIZED IN THE CHART OVER THERE.  
3 IF I COULD, I'D LIKE TO APPROACH THE CHARTS TO GO THROUGH  
4 A DISCUSSION OF WHY THIS COMMISSION REALLY SHOULD PERMIT  
5 CARRIERS TO DO THIS.

6 CHAIRMAN BUTLER: THAT WILL BE

7 FINE.

8 A (MR. GILLAN) THANK YOU. IF ANYONE CAN'T HEAR ME, LET  
9 ME KNOW. GENERALLY THAT'S NOT BEEN A PROBLEM SINCE MY  
10 YOUTH. I GUESS I WANT TO BEGIN BY--AS I HEARD MR. VARNER  
11 GO THROUGH THIS YESTERDAY, IT OCCURRED TO ME THAT MR.  
12 VARNER AND I HAVE SOMETHING IN COMMON. HE MUST HAVE SMALL  
13 CHILDREN AND HE'S FAMILIAR WITH THE USEFULNESS OF FAIRY  
14 TALES TO ENCOURAGE A CHILD TO DO WHAT YOU WANT. I USED TO  
15 SPEND A LOT OF TIME WITH MY DAUGHTER TAKING HER THROUGH  
16 FAIRY TALES AND TELLING HER IF SHE DIDN'T DO SOMETHING  
17 THAT EITHER A WOLF WOULD GET HER OR A CRAZY GRANDMOTHER  
18 WOULD EAT HER OR WHATEVER, AND EVENTUALLY MY DAUGHTER  
19 DISCOVERED THAT, EVEN IN ORLANDO, FLORIDA, THESE ARE  
20 UNLIKELY OUTCOMES AND REQUIRED A MORE SUBSTANTIVE  
21 EXPLANATION. WELL, IN MANY WAYS I THINK A FAIRY TALE HAS  
22 BEEN LAID OUT FOR YOU TO CONVINCING YOU THAT YOU SHOULDN'T  
23 FOLLOW THE PLAIN LANGUAGE OF THE ACT, THAT YOU SHOULDN'T  
24 DO WHAT CREATED--ONE OF THE IMPORTANT TOOLS THAT CONGRESS

1       CREATED, THAT THE F.C.C. RULES MANDATE AND WHICH, QUITE  
2       FRANKLY, ENTRY TO SUCCEED BY ANY COMMERCIAL SCALE  
3       ABSOLUTELY REQUIRES.

4               THE TALE BEGINS WITH THIS CHART AND I  
5       WILL FOCUS ON THIS COLUMN AND THIS COLUMN; AND FOR THE  
6       PURPOSES OF OUR DISCUSSION, I'LL ACCEPT WITHOUT COMMENT  
7       EVERY SINGLE ONE OF MR. VARNER'S NUMBERS AS TO THEIR  
8       ACCURACY. I WILL DIFFER WITH HIM ON WHAT THEY MEAN AND  
9       WHAT THEY SHOULD BE TELLING YOU. MR. VARNER BASICALLY  
10      SHOWS THIS CHART THAT SAYS THAT IF YOU LOOK OUT AND BUY  
11      THE NETWORK INGREDIENTS TO SERVE A BUSINESS CUSTOMER, THE  
12      COST OF THOSE NETWORK INGREDIENTS IS ROUGHLY \$22 A MONTH,  
13      BUT THAT THOSE NETWORK INGREDIENTS ARE USED TO CREATE A  
14      COLLECTION OF SERVICES THAT ARE SOLD TO A BUSINESS  
15      CUSTOMER TO WHICH BELLSOUTH CURRENTLY CHARGES  
16      APPROXIMATELY \$90 A MONTH. NOW, THIS IS KIND OF  
17      REMARKABLE BECAUSE WHAT MR. VARNER HAS BASICALLY COME TO  
18      YOU AND SAID IS THAT THERE'S A \$22 COST OF THE NETWORK  
19      COMPONENTS TO SERVE THIS CUSTOMER, BELLSOUTH CHARGES THAT  
20      CUSTOMER \$90, A MARKUP OF ABOUT 300 PERCENT, AND THAT THE  
21      CONCERN YOU SHOULD HAVE IS THAT SOMEBODY ELSE WILL COME  
22      INTO THE MARKET AND START GIVING THIS CUSTOMER A BETTER  
23      DEAL. IT SEEMS TO ME IF I WERE BELLSOUTH, A REGULATED  
24      UTILITY AND I HAD JUST COME BEFORE MY COMMISSION AND TOLD

1           THEM THAT I OVERCHARGED A CUSTOMER BY 300 PERCENT, I'D BE  
2           A LITTLE MORE CONCERNED ABOUT THEIR REACTION THAN TO TELL  
3           YOU THAT YOUR REAL CONCERN SHOULD BE MAKING SURE THIS  
4           CUSTOMER SPENDS \$90 A MONTH. NETWORK ELEMENTS ALLOW AT&T,  
5           ANY ENTRANT TO SHOW UP IN THE MARKETPLACE AND GO AFTER  
6           THIS CUSTOMER. ON THIS MR. VARNER AND I AGREE. THE  
7           OUTCOME IS THAT THIS \$90, WHICH BELL SOUTH IMPLIES IS ITS  
8           \$90, IS THE \$90 OF THAT CUSTOMER AND THAT CUSTOMER IN A  
9           COMPETITIVE ENVIRONMENT WILL HAVE AN OPPORTUNITY TO GO GET  
10          SERVICE FROM SOMEBODY ELSE AND THE COMPETITIVE PROCESS  
11          WILL TAKE THIS \$90 AND DRIVE IT TOWARDS THIS \$22. THAT IS  
12          THE POINT OF THE ACT. THE POINT OF THE ACT WAS TO MAKE  
13          SURE THAT OTHER ENTRANTS COULD BUY THESE NETWORK ELEMENTS,  
14          GO INTO THE MARKET AND TRY AND OFFER THIS GUY A BETTER  
15          DEAL; AND IN THE PROCESS OF OFFERING A BETTER DEAL, HE'S  
16          GOING TO MOVE AND BELL SOUTH IS GOING TO RESPOND AND THIS  
17          \$90 IS GOING TO BE DRIVEN TOWARDS THE \$22. NOW, MR.  
18          VARNER TRIED TO MAKE THAT SOUND LIKE A BAD OUTCOME BECAUSE  
19          HE IMMEDIATELY TIED IT TO THE IDEA THAT IF THIS BUSINESS  
20          CUSTOMER SAVES MONEY, EVERYBODY ELSE IN BELL SOUTH'S REGION  
21          MUST PAY MORE.

22                       WELL, THERE'S ANOTHER CHART IN MR.  
23          VARNER'S TESTIMONY THAT HE DIDN'T SHOW YOU, AND IT GOES TO  
24          THAT POINT. AND THE POINT REALLY IS, YES, THIS IDEA, THIS

1 ABILITY, THIS ENTRY TECHNIQUE WILL STOP BELLSOUTH OVER-  
2 CHARGING BUSINESSES, BUT WHAT WILL HAPPEN TO THESE OTHER  
3 CUSTOMERS. IF MR. VARNER HAD SHOWN YOU HIS OTHER EXHIBIT,  
4 THERE WOULD HAVE BEEN THIS COLLECTION OF REVENUES THAT  
5 ALSO SHOWS THE DIFFERENCE BETWEEN CARRIERS THAT ENTER THE  
6 MARKET AS SERVICE RESELLERS AND CARRIERS THAT WILL BE ABLE  
7 TO ENTER THE MARKET USING UNBUNDLED NETWORK ELEMENTS--NOT  
8 FOR THE BUSINESS CUSTOMER, BUT FOR THE AVERAGE RESIDENTIAL  
9 CUSTOMER IN SOUTH CAROLINA. IN A RESALE ENVIRONMENT, THE  
10 RESELLER BASICALLY DOES LITTLE MORE THAN MARKET  
11 BELLSOUTH'S SERVICE FOR IT. IT GETS INTO THE MARKET. IT  
12 DOES LEARN SOME SKILLS BECAUSE, BEAR IN MIND TODAY, IF WE  
13 PUT EVERYONE IN THIS ROOM WHO KNOWS HOW TO RUN A  
14 COMPETITIVE LOCAL TELEPHONE COMPANY, THERE'D STILL BE ROOM  
15 AT THESE SEATS. NOBODY KNOWS HOW TO DO THIS. SO, RESALE  
16 DOES HAVE THE ADVANTAGE OF IT GETS COMPANIES, EVEN  
17 COMPANIES LIKE AT&T, INTO THE MARKET AND LEARN SKILLS, BUT  
18 THERE'S VERY LITTLE, INDEED ALMOST NO ABILITY TO CONTROL  
19 BELLSOUTH'S PRICES OR OFFER THOSE CUSTOMERS A BETTER DEAL.

20 IN THE RESALE MARKET ENVIRONMENT, THE  
21 RESELLER LOOKS AT THIS AVERAGE RESIDENTIAL CUSTOMER AND  
22 THERE'S REVENUE POTENTIAL OF \$27.35. IT'S RELATIVELY LOW  
23 BECAUSE A RESELLER IS ONLY PARTWAY IN THE LOCAL TELEPHONE  
24 BUSINESS. IT'S NOT IN THE INTRASTATE ACCESS BUSINESS,



1 IT'S NOT IN THE INTERSTATE ACCESS BUSINESS, IT'S NOT  
2 REALLY IN THE ACCESS BUSINESS AT ALL. ON THE ACCESS RATE  
3 IT DOES--IT HAS ONE THING THAT IT COLLECTS AND IMMEDIATELY  
4 GIVES TO BELL. SO IN RESALE THEY OFFER SOME SERVICES, BUT  
5 NOT ALL SERVICES AND THEIR COSTS TO BELL SOUTH ALMOST  
6 DIRECTLY EQUAL THE REVENUES THEY CAN GET FROM THE  
7 CUSTOMER. FOR EVERY CUSTOMER THEY SUBSCRIBE WHOSE AVERAGE  
8 REVENUE IS \$27.00, THEY END UP PAYING BELL SOUTH \$24.87 OF  
9 IT. UNDER BELL SOUTH'S PROPOSAL THERE'S A TOTAL MARGIN OF  
10 \$2.48 A MONTH. NOW YOU CAN IMAGINE TWO THINGS FROM THIS  
11 CHART. FIRST OF ALL, IF THE ENTRANT HAS IN TOTAL A  
12 POTENTIAL SAVINGS OF \$2.48 A MONTH, HE'S NOT GOING TO BE  
13 ABLE TO OFFER CUSTOMERS ANY KIND OF PRICE BREAK.  
14 SECONDLY, SINCE HE'S OFFERING A SERVICE THAT IS IN FACT  
15 BELL SOUTH'S SERVICE, HE CAN'T OFFER THEM A DIFFERENT  
16 SERVICE. AND FINALLY, AS BELL SOUTH WANTS TO RAISE THIS  
17 RATE, THIS RATE DRAGS UP WITH IT AND SO THIS CUSTOMER  
18 CAN'T PROTECT CUSTOMERS FROM PRICE INCREASES. WHEN  
19 BELL SOUTH'S PRICE CAP PLAN HAS THE CAPS COME OFF AND  
20 BELL SOUTH CAN RAISE THOSE PRICES, THESE COMPETITORS CAN'T  
21 PROTECT THEM. THEY CAN'T GIVE THEM AN OPTION TO VOTE WITH  
22 THEIR FEET.

23 NETWORK ELEMENT COMBINATIONS FOR AVERAGE  
24 RESIDENTIAL CUSTOMERS--DIFFERENT BUSINESS PLANS, DIFFERENT

1 REVENUES, DIFFERENT COSTS, DIFFERENT ANIMAL. IN NETWORK  
2 ELEMENT COMBINATION, THE CARRIER ENTERS THE MARKETPLACE  
3 NOT ONLY OFFERING A FEW OF THE SERVICES; BUT LIKE ANY  
4 OTHER LOCAL TELEPHONE COMPANY, IT SELLS SERVICES TO THE  
5 CUSTOMER AND IT SELLS SERVICES TO OTHER CARRIERS TO REACH  
6 THAT CUSTOMER, THE SAME SET OF REVENUE CHOICES AS  
7 BELL SOUTH. REVENUES GO UP TO \$35.85, TYPICAL RESIDENTIAL  
8 CUSTOMER. THEY BUY FROM BELL SOUTH THE INGREDIENTS  
9 NECESSARY TO OFFER THEIR SERVICES, THE FULL RANGE OF THESE  
10 PRODUCTS. THEY PAY FOR THE LOOP. THEY PAY FOR THE  
11 SWITCH. MR. VARNER KEPT TELLING YOU THAT THE ENTRANT GETS  
12 THESE OPTIONAL FEATURES FOR FREE. WELL, SINCE I'M AN  
13 ECONOMIST, I GET TO SAY THERE'S NO SUCH THING AS A FREE  
14 LUNCH. THERE'S NO SUCH THING AS A FREE VERTICAL FEATURE.  
15 THE ONLY REASON THAT AT&T DOES NOT PAY MORE FOR THESE  
16 FEATURES IS BECAUSE THEIR COST IS ALREADY INCLUDED IN WHAT  
17 THEY PAY FOR THE SWITCH. YOU PAY FOR THESE FEATURES UP  
18 FRONT BECAUSE THAT'S VERY CLOSE TO THE WAY BELL SOUTH  
19 INCURS THOSE FEATURES. YOU PUT IN A SWITCH, IT'S GOT THE  
20 FEATURES. SO UNDER THE F.C.C.'S RULES, THE RATES YOU PAY  
21 FOR THAT SWITCH INCLUDE THESE FEATURES AND IT'S UP TO YOU  
22 AS AN ENTRANT TO FIGURE OUT WHICH ONES YOU'RE GOING TO  
23 SELL, WHICH ONES YOU'RE GOING TO MARKET. THE END OF THIS  
24 PROCESS, THE AVERAGE RESIDENTIAL CUSTOMER IN BELL SOUTH'S

1 REGION TODAY HAS A COST TO SERVE IT OF ROUGHLY \$21,  
2 REVENUE OF 35. BELL SOUTH IS CURRENTLY GETTING A MARGIN OF  
3 69 PERCENT WITH A DIFFERENTIAL OF \$14 PER MONTH. IF THIS  
4 OPPORTUNITY TO BUY NETWORK INGREDIENTS, DESIGN SERVICES  
5 AND GO IN THE MARKET IS PROVIDED, IT WILL BENEFIT BUSINESS  
6 CUSTOMERS; BUT THE DATA ALSO SHOWS, AT LEAST FOR THE  
7 AVERAGE RESIDENTIAL CUSTOMER, IT WILL BENEFIT THEM AS WELL  
8 BECAUSE NOW WHEN THE PRICE CAP PLAN COMES OFF OF BELL SOUTH  
9 AND BELL SOUTH WANTS TO RAISE SOME OF THESE PRICES, THERE  
10 WILL STILL BE COMPETITORS IN THE MARKET WITH THAT COST.  
11 THERE WILL BE COMPETITORS OUT THERE OFFERING ALTERNATIVES  
12 AND BELL SOUTH WILL NOT BE ABLE TO RAISE RATES BECAUSE  
13 THOSE CUSTOMERS WILL BE ABLE TO GO TO OTHERS.

14 NOW ONE OTHER POINT. I HAD SHOWN YOU  
15 THIS FOR THE AVERAGE CUSTOMER BECAUSE THAT'S WHERE THE  
16 DATA WAS IN MR. VARNER'S TESTIMONY. IF I WERE SITTING IN  
17 YOUR SHOES, I'D WANT TO KNOW WHAT HAPPENS TO THE BELOW  
18 AVERAGE CUSTOMER. WHAT ABOUT THE PEOPLE WHO DON'T BUY  
19 THESE OTHER FEATURES? FORTUNATELY, BELL SOUTH HAD TO  
20 ANSWER THAT QUESTION TO THE F.C.C. IN ITS UNIVERSAL  
21 SERVICE FILING. IT HAD TO PROVIDE THE F.C.C. A  
22 DISTRIBUTION OF LOCAL BILLS FOR RESIDENTIAL CUSTOMERS IN  
23 SOUTH CAROLINA. IF THE NETWORK COST TO SERVE THESE  
24 CUSTOMERS IS ROUGHLY--I'LL ROUND UP TO \$22, WHAT THIS

1 SHOWS IS THAT BY FAR, FAR AND AWAY THE VAST MAJORITY OF  
2 SOUTH CAROLINA CONSUMERS, EVEN RESIDENTIAL CONSUMERS,  
3 SPEND MORE ON LOCAL PHONE SERVICE THAN IT COSTS TO PROVIDE  
4 THEM WHEN YOU INCLUDE THINGS LIKE THESE OPTIONAL FEATURES  
5 AND THEIR LOCAL USAGE. THERE IS APPARENTLY A SMALL  
6 FRACTION OF RESIDENTIAL CUSTOMERS THAT DON'T SPEND ENOUGH  
7 EACH MONTH. THIS CHART DOESN'T INCLUDE, HOWEVER, PEOPLE'S  
8 LONG DISTANCE CALLING. I DIDN'T HAVE THAT DATA. IF I  
9 HAD, THE COST LINE MOVES VERY, VERY SMALL TO THE RIGHT.  
10 THIS WHOLE THING MOVES FURTHER TO THE RIGHT, SO EVEN MORE  
11 CUSTOMERS BECOME PROFITABLY SERVED. THE BEST WAY YOU CAN  
12 SERVE CONSUMERS IS GIVE THESE CUSTOMERS A CHOICE.

13 NOW, WHAT I HOPE TO HAVE SHOWN YOU IS  
14 THAT, YES, PART OF THE FAIRY TALE IS TRUE. BELLSOUTH  
15 OVERCHARGES BUSINESS CUSTOMERS BY A VERY SIGNIFICANT  
16 MARGIN IN SOUTH CAROLINA; BUT YOU CANNOT DRAW FROM THAT  
17 CONCLUSION THE THREAT THAT RESIDENTIAL CUSTOMERS WILL SEE  
18 A RATE INCREASE UNLESS YOU ALLOW THIS TO GO FORWARD IN A  
19 WAY WHERE THE ONLY WAY PEOPLE CAN SERVE CUSTOMERS IS THE  
20 CUSTOMERS THAT ARE LOCATED DOWNTOWN, THE CUSTOMERS THAT  
21 ARE LOCATED NEAR NEW NETWORKS. YOU HAVE TO MAKE SURE THAT  
22 CARRIERS CAN GO OUT INTO THE ENTIRE MARKET, BUY THESE  
23 INGREDIENTS, PAY BELLSOUTH THE COST OF THOSE NETWORK  
24 INGREDIENTS, BUT SERVE THESE CUSTOMERS, INCLUDING

1 RESIDENTIAL CUSTOMERS, BECAUSE AT THE END OF THE DAY THE  
2 ONLY PROTECTION YOU CAN REALLY GIVE THEM IS THEY'VE GOT TO  
3 BE ABLE TO VOTE WITH THEIR FEET. THAT'S THE ULTIMATE  
4 PROTECTION IN THE NEW ENVIRONMENT.

5 ONE LAST COMMENT, JUST TO PUT IT ALL IN  
6 PERSPECTIVE. WHY DID CONGRESS PUT THE LAST LINE OF  
7 SECTION 251(C)(3) IN, THE LINE THAT UP UNTIL RECENTLY I  
8 THOUGHT WAS UNAMBIGUOUS? WELL, NOT BECAUSE OF THAT. THEY  
9 GIVE PEOPLE THE ABILITY TO COMBINE NETWORK ELEMENTS  
10 BECAUSE WE WENT TO THEM AND EXPLAINED TO THEM THAT IT'S  
11 GOING TO TAKE A LONG, LONG, LONG TIME BEFORE THERE'S  
12 ANOTHER PLACE TO BUY THESE NETWORK ELEMENTS EXCEPT FROM  
13 THE INCUMBENT. YES, PEOPLE ARE GOING TO PUT IN NICHE  
14 NETWORKS. MR. SCHEYE, WHO DOESN'T TYPICALLY SPEAK ON  
15 BEHALF OF THE COMPETITIVE INDUSTRY, TOLD YOU THAT THERE  
16 ARE COMPETITORS GOING INTO PLACES LIKE FLORIDA, INTO  
17 CHICAGO, GOING INTO NEW YORK, AND THEY'RE GOING TO GO  
18 THERE AND THEY'RE GOING TO BUILD NETWORKS AND THOSE  
19 NETWORKS ARE GOING TO BUILD SLOWLY. BUT THIS GIVES YOU  
20 SOME IDEA. THIS IS FOR SOUTH CAROLINA, BUT THIS HOLDS  
21 TRUE AROUND THE COUNTRY. THE LONG DISTANCE MARKET THAT IT  
22 TOOK BASICALLY THIRTY YEARS TO MAKE COMPETITIVE IS A VERY  
23 SMALL FRACTION OF THE TOTAL AMOUNT OF NETWORK THAT  
24 PROVIDES PHONE SERVICE. ONE WAY OF THINKING ABOUT THIS IS

1 THAT OVER THE PAST THIRTY YEARS THE CUMULATIVE INVESTMENT  
2 OF SPRINT, MCI, WORLDCOM, ALL WENT TO CONSTRUCT NETWORKS  
3 THAT BASICALLY SERVE ABOUT 40 PERCENT OF THIS. THAT'S  
4 THIRTY YEARS OF CUMULATIVE INVESTMENT, ALL OF THOSE  
5 COMPANIES. ARE PEOPLE GOING TO BUILD NETWORKS THAT COME  
6 DOWN THIS TOWER? YES. WILL PEOPLE PUT SWITCHES IN? YES.  
7 BUT IF YOU HAVE TO WAIT, IF THESE CUSTOMERS HAVE TO WAIT  
8 UNTIL THIS NETWORK COMES TO THEIR HOUSE BEFORE THEY'RE  
9 PROTECTED FROM BELL SOUTH'S PRICING, THEY'RE NEVER GOING TO  
10 GET PROTECTION. THE ONLY PROTECTION IS THAT OTHER  
11 CARRIERS CAN BUY THIS EXISTING NETWORK, THESE NETWORK  
12 INGREDIENTS, PAY THEM THE RIGHT PRICE, PAY THEM THE COST  
13 OF THOSE NETWORK INGREDIENTS, DESIGN THEIR OWN SERVICES  
14 AND GO INTO BUSINESS. THAT'S WHY CONGRESS DID IT, THAT'S  
15 WHY THE F.C.C. DID IT, THAT'S WHY OTHER STATES HAVE DONE  
16 IT, AND THAT'S WHY YOU SHOULD DO IT, TO MAKE SURE THESE  
17 SOUTH CAROLINA CONSUMERS HAVE A CHOICE. THANK YOU.

18 A (MS. WINEGARD) JUST ONE QUICK FOLLOW-UP TO WHAT MR.  
19 GILLAN SAID. REMEMBER YESTERDAY WHEN I WAS GIVING MY  
20 OPENING, I PUT UP THERE THE CHART THAT SHOWED 150 SWITCHES  
21 HERE IN SOUTH CAROLINA AND MENTIONED THAT BELL SOUTH HAD  
22 1.2 MILLION ACCESS LINES. SO IF YOU WERE TO ADOPT  
23 BELL SOUTH'S ARGUMENT THAT ANY TIME YOU PURCHASE BOTH A  
24 LOOP AND A SWITCH AND PUT THEM TOGETHER, FOR A COMPETITOR

1 TO BE ABLE TO GET THOSE PRICES WE WOULD HAVE TO PUT IN 150  
2 SWITCHES AT A COST OF BILLIONS OF DOLLARS OR 1.2 MILLION  
3 ACCESS LINES, LIKEWISE EXTREMELY EXPENSIVE, AND THAT'S WHY  
4 IT IS APPROPRIATE TO CHARGE THE NETWORK ELEMENT PRICES.

5 WITH RESPECT TO THE LAW, THERE ARE  
6 SEPARATE PRICING STANDARDS FOR RESALE AND FOR THE PURCHASE  
7 OF NETWORK ELEMENTS. SECTION 252(D)(3), THE RESALE  
8 PRICING STANDARDS, AND SECTION 252(D)(1) PROVIDES THE  
9 PRICING STANDARDS FOR NETWORK ELEMENTS. IN KENTUCKY, WHEN  
10 DEALING WITH THESE ISSUES, THE COMMISSION AGREED THAT THIS  
11 WAS A CRITICAL ISSUE AND STATED, "IF COMPETITORS ARE NOT  
12 ABLE TO USE BELLSOUTH'S NETWORK ELEMENTS AT COST TO  
13 PROVIDE SERVICE, VIABLE COMPETITION IS UNLIKELY TO GROW.  
14 MOREOVER, THE COMMISSION REJECTS BELLSOUTH'S STRAINED  
15 LEGAL ARGUMENT WHICH WOULD REQUIRE IT TO IGNORE THE  
16 LANGUAGE AND THE STRUCTURE OF THE STATUTE."

17 Q (MS. TAYLOR) I WOULD EXPECT YOU'D LIKE TO RESPOND.

18 (LAUGHTER)

19 A (MR. VARNER) I'M TEMPTED TO SAY "NO COMMENT." YES, I  
20 PROBABLY SHOULD RESPOND. MR. GILLAN WAS RIGHT ON ONE  
21 THING, I DO HAVE SMALL KIDS, AND I THINK HE LISTENS TO ME  
22 ABOUT AS WELL AS THEY DO BECAUSE HE VIRTUALLY MIS-  
23 REPRESENTED EVERYTHING THAT I SAID. FIRST, I GUESS--I'M  
24 NOT SURE WHERE TO START OFF, BUT I'M GOING TO TRY TO KEEP

1 THIS BRIEF. I'M NOT GOING TO REHASH THE ENTIRE SUMMARY  
2 THAT I WENT THROUGH YESTERDAY.

3 I DID NOT ATTEMPT TO REPRESENT UP THERE,  
4 ANYWHERE ON ANY OF THOSE CHARTS THAT I SHOWED YOU,  
5 BELLSOUTH'S COSTS, SO THAT'S THE FIRST MISNOMER. THE  
6 OTHER THING, AS I SAID IN MY SUMMARY, I AM NOT ATTEMPTING  
7 TO HAVE THIS COMMISSION MAKE A DECISION ON A MATTER THAT  
8 IS BEFORE THE EIGHTH CIRCUIT. THE QUESTION OF WHETHER  
9 RECOMBINATION SHOULD OR SHOULD NOT BE ALLOWED IS AN ISSUE  
10 BEFORE THE EIGHTH CIRCUIT. WE DO NOT BELIEVE THAT IT  
11 SHOULD BE ALLOWED AND I'LL EXPLAIN THAT A LITTLE BIT  
12 LATER. HOWEVER, THE ISSUE BEFORE THIS COMMISSION IS HOW  
13 THIS RECOMBINATION SHOULD BE PRICED. THE F.C.C. HAS  
14 ISSUED RULES REQUIRING THE ABILITY TO PERMIT SUCH  
15 RECOMBINATION. THOSE RULES HAVE NOT BEEN STAYED.  
16 HOWEVER, THIS COMMISSION HAS A VERY, VERY IMPORTANT ROLE  
17 IN THAT PROCESS AND THAT IS THE DETERMINATION OF WHAT IS  
18 THE PRICE THAT SHOULD APPLY ON THESE RECOMBINED ELEMENTS.  
19 I GUESS I HAVE TO GO UP THERE BECAUSE I NEED TO MOVE THAT  
20 CHART OUT OF THE WAY.

21 TECHNICIAN: I'LL DO IT IF YOU WANT.

22 MR. VARNER: I ALSO NEED TO SEE THE  
23 OTHER ONE. I CAN'T SEE THAT ONE.

24 TECHNICIAN: IS THAT THE ONE YOU WANT?



1 A (MR. VARNER) YES.

2 AGAIN, GOING BACK TO MY EXAMPLE AND KIND  
3 OF LAYING IT OUT VERY BRIEFLY, A TYPICAL BUSINESS CUSTOMER  
4 IS PAYING \$89.11 FOR A PACKAGE OF FEATURES AND BASIC  
5 SERVICE FROM BELL SOUTH. UTILIZING BELL SOUTH'S RESALE  
6 DISCOUNT, THE PRICE TO AT&T--NOT THE PRICE TO THE  
7 CUSTOMER, THIS IS THE PRICE TO AT&T--WOULD BE \$83.17.  
8 UNDER AT&T'S PROPOSAL, WHAT THEY WOULD LIKE TO BE ABLE TO  
9 DO IS, UTILIZING THEIR PRICES FOR UNBUNDLED ELEMENTS, BE  
10 ABLE TO BUY THOSE SAME CAPABILITIES THAT AMOUNT TO NOTHING  
11 MORE THAN RESALE AND SIMPLY PAY \$21.82 FOR THEM. THAT'S  
12 NOT A REPRESENTATION OF OUR COST. IT IS NOT A  
13 REPRESENTATION OF THE PRICE TO THE END-USER. THAT IS A  
14 PRICE THAT AT&T WANTS TO PAY FOR THOSE SERVICES. WHAT  
15 AT&T WILL CHARGE THE END-USER IS OBVIOUSLY UP TO AT&T AND  
16 IT'S NOT BEING REPRESENTED OR SHOWN ON THE CHARTS. THE  
17 ISSUE BEFORE THIS COMMISSION IS THAT, AS A POLICY MATTER,  
18 GIVING AT&T A 75 PERCENT DISCOUNT OFF OF THE RETAIL PRICE  
19 FOR BUSINESS EXCHANGE SERVICE, IS THAT REASONABLE POLICY  
20 FOR THE STATE OF SOUTH CAROLINA, AND I SUBMIT TO YOU THAT  
21 IT'S NOT FOR A COUPLE OF REASONS. ONE IS THIS. GIVING  
22 THAT KIND OF A DISCOUNT WILL NOT PROVIDE ANY INCENTIVES AT  
23 ALL FOR AT&T TO EVER INVEST IN SOUTH CAROLINA, GIVING THAT  
24 KIND OF A DISCOUNT WILL ENSURE THAT WHAT AT&T WILL DO IS